No. 8215.

In the United States
Circuit Court of Appeals
For the Ninth Circuit.

In-A-Floor Safe Co., Ltd., a corporation,
Appellant,
vs.
Diebold Safe & Lock Company, a corporation,
Appellee.

APPELLEE'S BRIEF.

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APPELLEE'S BRIEF.

This case comes before this Court on an appeal by In-A-Floor Safe Co., Ltd. from an order denying defendant-appellant leave to interpose a counterclaim. We shall herein refer to the parties as plaintiff and defendant, as in the court below.

On *December 18, 1934,* plaintiff filed its bill of complaint [R. 4-8] against defendant alleging infringement of the Miller patent No. 1,965,296, granted July 3, 1934.

On *January 7, 1935,* defendant served and filed its answer [R. 9-12]. This answer did not contain any counterclaim, notwithstanding that *Equity Rule 30* requires that:–

> "The answer must state in short and simple form any counterclaim arising out of the transaction which

> is the subject-matter of the suit, and may, without cross bill, set up any set-off or counterclaim against the plaintiff which might be the subject of an independent suit in equity against him, * * *"

On *November 9, 1935,* eleven months after answering, defendant filed a motion [R. 13-30] for leave to amend its answer, as per copy entitled "Amended Answer and Counter Claim".

No showing whatever was made or presented explaining why defendant had not complied with the requirements of *Equity Rule 30* and include such purported counterclaim in its answer within the time limited for answering. In support of such motion, defendant stated that it would "rely on all of the papers and proceedings on file in this cause and upon the attached points and authorities", but there was no showing of any fact excusing the failure to include the counterclaim in the original answer.

If the counterclaim had been of the class "arising out of the transaction which is the subject-matter of the suit", then defendant was in default and an application to permit it to thereafter file a counterclaim would have been addressed to the sound legal discretion of the trial court. A showing of facts excusing the default and delay would have been a prerequisite to the court's relieving the defendant of such default and granting such motion. In this case the attempted counterclaim is not of the class which *must* be made. It is of the class which *may* be set up. This is a permission and not an obligation and does not bar the defendant from a cause of action in a counterclaim in an independent suit in equity (Rule 30). Clearly, not having availed itself of the permission of the rule, an

equally, if not stronger, showing of facts excusing the failure to counterclaim in the original answer and the delay in moving was required. In the case at bar, no showing whatever having been made, unless this Court can rule that, notwithstanding *Equity Rule 30,* defendant had the absolute right at any time prior to judgment to counterclaim, the order appealed must be affirmed, as there is nothing before the Court upon which the Court can rule that the district court abused its discretion. Appellant's position seems to be that it had the right to amend its answer as of course and insert the counterclaim *as a matter of right.* We find no provisions of the Equity Rules supporting this position. The right to amend is not of course and as a matter of right. *Equity Rule 19* refers to amendments generally and provides that the court may at any time, in furtherance of justice, upon such terms as may be just, permit any pleading to be amended. *Equity Rule 30* makes but one reference to amendment of an answer:

> "but the answer may be amended, by leave of the court or judge, upon reasonable notice, so as to put any averment in issue, when justice requires it."

Equity Rule 34, referring to supplemental pleadings, provides that upon application of either party the court may, upon reasonable notice and such terms that are just, permit him to file a supplemental proceeding, alleging material facts occurring after his former pleading or of which he was ignorant when it was made. These two rules indicate by analogy, if not directly, that an amendment is within the sound discretion of the court. In fact the cases hold that the action of the trial court in allowing

or disallowing amendments is subject to review only in case of abuse of discretion.–

Ames v. Sullivan, 235 Fed. 880;

Beers v. D. & R. G. W. R. Co., 286 Fed. 886;

Radio Corpn. v. Emerson, 296 Fed. 51;

Electric M. & E. Corpn. v. United P. & L. Corpn., 19 F. (2d) 311 (C. C. A. 8);

Johnston v. Ouachita Nat. Bank, 40 F. (2d) 604 (C. C. A. 8);

America Land Co. v. Keene, 41 F. (2d) 484, 486, (C. C. A. 1).

Defendant's original answer [R. 9-12] put in issue the validity of the Miller patent, upon which plaintiff's bill of complaint was grounded, and denied infringement thereof.

Defendant's motion to amend its answer, so far as its defensive allegations were concerned, was not opposed by plaintiff and was granted by consent. The alleged counterclaim is an "independent suit in equity" (Rule 30) grounded upon a patent to Samuel L. Belknap No. 1,887,866. It alleges the grant and delivery of said patent to said Belknap, but does not contain any allegation that said Belknap is the owner or holder of the legal title thereto except inasmuch as the counterclaim alleges the granting of the patent to Belknap and does not show any assignment by him. The counterclaim alleges the grant of a sole and exclusive license to use the invention of the Belknap patent and the acquisition of this license by defendant on January 5, 1931 [R. 24, Par. F]. It alleges that Samuel L. Belknap is now the president of defendant and the principal stockholder thereof, but does not allege when Belknap so became president or principal stockholder. Whether this has been true at all times or was

true at the time of the commencement of this suit is uncertain.

Plaintiff's suit was against defendant, In-A-Floor Safe Co., Ltd. alone. Defendant's counterclaim prays:

> "That an order be entered that Samuel L. Belknap be brought in as a defendant, as provided in the last paragraph of Equity Rule 30."

At the time defendant filed its original answer, it knew that the legal title to the Belknap patent was in Belknap. It does not allege any change of title since the commencement of plaintiff's suit. The prayer of the counterclaim that Belknap be brought in as a defendant is ambiguous. It is not clear that the counterclaim seeks to make Belknap a counterclaimant against plaintiff. This, however, must be the import of the prayer because the counterclaim does not set up any facts showing that Belknap is hostile to defendant or refuses to join therein. On the contrary the counterclaim alleges that Belknap "is willing to join the defendant in this counterclaim" [R. 25, Par. G]. The legal title to the Belknap patent being in Belknap, he is a necessary party. It is his rights in the Belknap patent that are alleged to be infringed.

It is well settled that the owner of a patent is a necessary party to a suit to protect the rights of the licensee against an infringer. (*Independent Wireless Tel. Co. v. R. C. A.*, 269 U. S. 459, 70 L. ed. 357; *Six Wheel Corporation v. Sterling Motor Truck Co.*, 50 Fed. (2d) 568 – C. C. A. 9.) Any rights of the licensee must be enforced through or in the name of the owner of the patent.

It is the general rule that new parties may not be brought in by counterclaim.

U. S. v. Woods, 223 Fed. 316, at 317 (C. C. A. 8);

Looney v. Thorpe Bros., 277 Fed. 367, at 370 (C. C. A. 8);

Irving Trust Co. v. Marine Midland Trust Co., 47 Fed. (2d) 907;

Atlas Underwear Co. v. Cooper Underwear Co., 210 Fed. 347, 355.

Equity Rule 30, as amended, providing for bringing in of new parties necessary to the complete determination of a counterclaim, presupposes the existence of a counterclaim against plaintiff and the proper statement thereof in the answer. It does not contemplate the bringing in of a new party holding the legal title to the cause of action counterclaimed upon, and without whom the cause of action of the counterclaim is not one which might be the subject of an independent suit in equity by defendant against plaintiff (*Equity Rule 30*). As said by the Circuit Court of Appeals for the Eighth Circuit in *Hunn et al. v. Lewis et al.,* 25 Fed. (2d) 271, at 274:–

> "* * * The controversy sought to be raised by the cross-bill was not one between the cross-complainants and appellee Lewis alone, but involved other parties, viz: Howe * * *, neither of whom was a party to the original bill. This in itself would not necessarily be fatal, since New Equity Rule 30 provides for the bringing in of new parties necessary to the complete determination of a counterclaim. But that provision of the rule presupposes the existence of a counterclaim against the plaintiff and the proper statement of it in the answer."

The situation would be radically different if it were sought to bring in new parties defendant to the counterclaim so that complete relief could be granted. In the present instance no relief whatsoever on the counterclaim could be granted in the absence of Belknap. Without Belknap as a party the counterclaim could not be granted at all, nor could an independent suit in equity be maintained against plaintiff herein without Belknap joining as a plaintiff in such suit.

It is universally held that an intervenor can not file a counterclaim. Examples of this rule are found in cases where the customer is sued for infringement of a patent and the manufacturer assumes the defense of the suit and intervenes for such purpose. Intervention for this purpose will be permitted, but the intervenor manufacturer will not be permitted to counterclaim for infringement of a patent owned by him.

Leaver v. K. & L. Box Lumber Co., 6 Fed. (2d) 666 (D. C. Cal.);

Chandler & Price Co. v. Brandtjen & Kluge, Inc., 296 U. S. 53, 80 L. ed. 28;

Brandtjen & Kluge, Inc. v. Joseph Freeman Inc., 75 Fed. (2d) 472.

In *Angier v. Anaconda Wire & Cable Co.*, 48 Fed. (2d) 612 (D. C. Del.), the defendant was sued for infringement of plaintiff's patent for Improvement in Packages. One element of the defendant's package was crepe paper. The manufacturer of the crepe paper used by defendant sought to intervene as a party defendant and enjoin the plaintiff from commencing or prosecuting other

or further suits against its customers. In denying this right the Court said at page 613:

> "* * * This petitioner, however, is not in the same position as the manufacturer and vendor of an alleged infringing device furnished by it to a defendant. * * * It seeks an opportunity in this suit * * * to set up defenses and seek affirmative relief not available to the defendant. This it should not be permitted to do."

In *Borne Scrymser Co. v. Gaeffney Mfg. Co., et al.,* 5 Fed. Sup. 405, suit was brought for infringement of plaintiff's patent. The Texas Co., one of the defendants, filed a counterclaim against the plaintiff for infringement of a patent in which The Texas Co. asserted that it had an exclusive license for the cotton and rayon industries, obtained after the bill was filed. Parke-Cramer Co. sought to intervene in support of the counterclaim as the owner, with the exception of The Texas Co.'s license, of the entire equitable and legal title to the patent. The Court, in denying leave to intervene, said at 407:

> "* * * An intervening defendant * * * cannot, by the strength of his position, breathe life into a dead lawsuit. It is true that if the original defendant has some standing in the Court, his position may be strengthened by that of an intervening defendant, but the intervening defendant cannot tie his claim to another claim which has no standing at all and by reason of the intervenor's legal position give a proper standing in the Court to the original defendant, who, by virtue of his own position, has none."

In *Prosperity Co. Inc. v. American Laundry Machinery Co.,* 6 Fed. Sup. 515, suit was filed against defendant for infringement of plaintiff's patent. Defendant moved for leave to file a counterclaim and an order to bring in the United Shoe Machinery Corp. as a party defendant. The latter company was the owner of the patent sought to be brought in in the counterclaim and the defendant was an exclusive licensee in certain fields. The Court, in denying the motion, said at 517:–

> "As pointed out by counsel for plaintiff, neither of these cases shows a defendant's right to bring in a third party by way of a counterclaim. They refer to the liberality with which rule 30 shall be interpreted in order to facilitate the prompt disposition of equitable controversies between the same litigants.
>
> "* * * In the instant case, however, it is conceded that the United Shoe Machinery Corporation owns the Bates patent and it follows, therefore, that defendant itself cannot base 'an independent suit in equity' (Rule 30) against plaintiff on the Bates patent. Defendant is dependent upon having the United Shoe Machinery Corporation, owner of the title to the Bates patent, joined as a party with it in order to maintain its counterclaim; hence its prayer (in the present motion) that the court order United Shoe Machinery Corporation brought in as a party defendant.
>
> * * * * * * * * *
>
> "* * * In the instant case the legal owner is a complete stranger to the litigation, and, as pointed out by counsel for plaintiff in their brief, to now grant the prayer and permit the United Shoe Machinery Corporation to become a party defendant might lead

to the filing of a supplemental bill against the United Shoe Machinery Corporation, and thus the matter become interminable."

In *Allington v. Shevlin-Hixon Co.,* 2 Fed. (2d) 747, cited with approval by the Supreme Court in 296 U. S. 53, 80 L. ed. 28, *supra,* the Court says at p. 749:

> "But, were he not too late, is it clear that an intervening party defendant may set up in his answer every counterclaim of an equitable character that he may have against the plaintiff? Under equity rule 30 the right of an original party defendant to set up in his answer his counterclaims against the plaintiff is very broad. American Mills Co. v. American Surety Co., 260 U. S. 360, 43 S. Ct. 149, 67 L. Ed. 306. It may be that the right of an intervening party defendant with respect to setting up counterclaims is, under equity rule 30, as broad as that of an original party defendant. But to permit, over the objection of the plaintiffs, a person to intervene not *pro interesse suo* only but as a party defendant (as to which see Chester v. Life Ass'n of Am. (C. C.), 4 F. 487) and then to permit such intervening party defendant to set up against the plaintiffs a counterclaim for affirmative relief that is not available to the original defendant, and to which the original defendant is not entitled, would be conferring upon such third person broad rights, indeed, with respect to the litigation, and might be extending the rights of such third person beyond the point intended by equity rules 30 and 37."

Samuel L. Belknap has made no application to intervene and counterclaim. Such an application would have been denied, and properly upon the foregoing authorities. The case presents the question squarely,—can defendant by

circumlocution do for Mr. Belknap what he would not be permitted to do? Had defendant in its original answer counterclaimed on the Belknap patent, such counterclaim could not be sustained. Defendant had no standing therein in court. The legal title must be before the court. Its owner was an indispensable party. The legal owner cannot be brought in to "breathe life into a dead lawsuit" (5 Fed. Supp. 405, *supra*). No reason is shown why defendant can act for the legal owner, Belknap, and for him and upon his behalf do that which he cannot himself do. This appeal is an appeal by defendant. Belknap has not appeared; he has not sought to join as a party; he is not before the Court. The Supreme Court says the field of litigation is limited to that open to the original parties. *(Chandler & Price Co. v. Brandtjen & Kluge, Inc.,* 296 U. S. 53, 80 L. ed. 28, *supra.)*

Plaintiff came into the Southern District of California and subjected itself to the jurisdiction of the district court for a determination of its cause of action against this defendant. Plaintiff did not assert any cause of action against Samuel L. Belknap. By suing defendant in said court plaintiff submitted itself under the Equity Rules to the jurisdiction of said court to determine as between plaintiff and defendant any counterclaim "arising out of the transaction which is the subject-matter" of plaintiff's complaint, i. e., infringement of the Miller patent. Also, any independent suit in equity of defendant against plaintiff. But not, to adjudication in said court of a suit in equity by Belknap.

The jurisdiction of the instant district court in patent cases is

> "in the district of which the defendant is an inhabitant, or in any district in which the defendant, whether a person, partnership, or corporation, shall have committed acts of infringement and have a regular and established place of business." (*Judicial Code,* Sec. 48, 28 U. S. C. A. Sec. 109.)

Plaintiff is not an inhabitant of the Southern District of California. It is an inhabitant of Canton, Ohio. What then has occurred which can be construed to be a waiver by plaintiff of its right to be sued in the Northern District of Ohio, if Samuel L. Belknap desires to sue it for alleged infringement of the Belknap patent? Plaintiff did not bring Belknap into said District Court for the Southern District of California. It asserted no cause of action as to him. And it did nothing to submit the alleged cause of action of Belknap against it for alleged infringement of the Belknap patent to the determination of the District Court of the Southern District of California. When plaintiff filed its suit, defendant had no cause of action against plaintiff. It has none now. The denial of leave to defendant to file a counterclaim (which defendant cannot sustain) should be affirmed because the plaintiff has not submitted itself to the jurisdiction of the Court to be sued therein by Belknap.

In *Cooling Tower Co. v. C. F. Braun & Co.,* 1 Fed. (2d) 178, this Court at page 179 said:

> "We are inclined to the view that the word 'counterclaim,' as used in the second part of the rule, includes all cross claims upon which the defendant might sue the plaintiff in equity, irrespective of their

connection with the plaintiff's cause of action, *provided that the court would have had jurisdiction of independent suits thereon against the plaintiff.*" (Italics ours.)

In *General Electric Co. v. Marvel Rare Metals Co.*, 287 U. S. 430, 77 L. ed. 408, it was held that defendant could counterclaim on its own patent against a plaintiff who came into the jurisdiction to litigate its patent. Apparently, the Court assumed that the plaintiff, under such circumstances, waived the right to be sued in the manner provided by statute. If so, this would be in accord with the rule that the question of jurisdiction as to the person may be waived.

Bearing in mind, however, that the plaintiff may have found it necessary to enter the defendant's district to gain jurisdiction in a suit on plaintiff's patent, it would seem that the doctrine of *General Electric Co. v. Marvel, supra,* should not be extended (see the reasoning of this court in *Cooling Tower Co. Inc. v. Braun & Co.,* 1 Fed. (2d) 178).

In *Chandler & Price Company v. Brandtjen & Kluge, Inc., et al.,* 296 U. S. 53, 80 L. ed. 28, the Court refused to extend the doctrine of *General Electric Co. v. Marvel* to permit a counterclaim on a patent to be asserted by an intervenor against the plaintiff.

We know of no case in which it has been held that a third party can be brought into a case for the sole purpose of enabling a counterclaim, which otherwise would not lie, to be asserted against a plaintiff.

It appears that the alleged license held by defendant provides:

> "8. In case the said Letters Patent shall be infringed the patentees shall, at their own cost, take all necessary proceedings to effectually defend the same; and in default of so doing, it shall be lawful for the licensee, in the name of the patentees and at their cost, to take all necessary proceedings for defending the same; or it shall be lawful for the licensee, by notice in writing given to the patentees or left at the usual or last place of business or residence, to determine this agreement." [R. 24.]

There is no pleading that the licensor (Belknap) defaulted with respect to his covenant to bring suit for infringement. Defendant has not, therefore, even an equitable right to prosecute suits against infringers, even though it were the rule that it is unnecessary that the owner of the patent be joined as co-plaintiff.

The proffered counterclaim alleges that Samuel L. Belknap is willing to join defendant in the counterclaim [R. 25, par. G]. There is no foundation in the counterclaim for the assertion in defendant's brief that the legal title holder is hostile to the defendant licensee. There is nothing to bring the case presented by the counterclaim within any rule that the licensee may join a hostile owner of the legal title as a party defendant. On the contrary the proffered counterclaim alleges the contrary, and, as pointed out, does not show any default or unwillingness of Belknap to respect his covenant to sue infringers.

It is submitted that the order appealed from should be affirmed—

1. There was no abuse of discretion by the District Court.

2. The alleged counterclaim is one which the defendant itself can not maintain. *Equity Rule 30* does not contemplate the bringing in of another party aligned with the defendant as a co-party to assert a counterclaim against the plaintiff. The counterclaim could only be vitalized by Belknap joining therein.

3. Plaintiff has not submitted itself to the jurisdiction of the United States District Court for the Southern District of California as to any right of action possessed by Belknap. The proffered counterclaim is therefore not within the jurisdiction of the Court, as the Court had no jurisdiction for purposes of such counterclaim over the person of this plaintiff.

Respectfully submitted,

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